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PAGE 01 TEL AV 01463 271516Z

44

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03

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FM AMEMBASSY TEL AVIV

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AMEMBASSY MADRID

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MADRID PLEASE PASS SECRETARY SIMON'S PARTY

E.O. 11652: N/A

TAGS: EFIN, IS

SUBJECT: GOI SUBMITS BUDGET FOR FY 1976/77

REF: TEL AVIV 1176

1. SUMMARY: GOI'S PROPOSED BUDGET FOR NEXT FISCAL YEAR
PRESENTED TO KNESSET FEB. 24. TOTAL EXPENDITURES AMOUNT
TO IL 85.2 BILLION, WITH DEFENSE EXPENDITURES REPRESENTING
39 AND DEBT SERVICE 21 PERCENT, RESPECTIVELY. TOTAL
REVENUES ARE ESTIMATED AT IL 82.5 BILLION, FOR A DEFICIT
OF IL 2.7 BILLION. FINANCE MINISTER RABINOWITZ OUTLINED
ECONOMIC POLICY GOALS FOR 1976 AS HOLDING DOWN ECONOMIC
GROWTH, CONSUMPTION, AND IMPORTS IN ORDER TO INCREASE
EXPORTS. SPECIFIC OBJECTIVE IS TO REDUCE CURRENT ACCOUNT
DEFICIT BY \$200 MILLION TO \$3.7 BILLION. BUDGET RAISES
SERIOUS QUESTIONS CONCERNING REALISM OF ITS PROJECTIONS,
ESPECIALLY FOR INFLATION AND CONSUMPTION. PRESS
REACTION IS GENERALLY SKEPTICAL END SUMMARY.

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PAGE 02 TEL AV 01463 271516Z

2. FEB. 24, GOI TABLED IN KNESSET FY 1976/77 BUDGET

(BEGINNING APRIL 1). IN PRESENTING BUDGET FINANCE
MINISTER RABINOWITZ REVIEWED 1975 ECONOMIC
DEVELOPMENTS AND OUTLINED ECONOMIC POLICY FOR 1976.
MOST IMPORTANT ACHIEVEMENT LAST YEAR, HE SAID, WAS FIVE
PERCENT REDUCTION IN PER CAPITA PRIVATE CONSUMPTION.
ANOTHER VERY IMPORTANT ACHIEVEMENT WAS CURBING OF
INFLATION; CONSUMER PRICE INDEX (CPI) ROSE ONLY 23.5
PERCENT COMPARED TO 56.2 PERCENT DURING 1974. AVERAGE
REAL WAGE DECLINED TWO PERCENT, BUT THIS WAS MORE THAN
OFFSET BY INCREASED DISPOSABLE INCOME BECAUSE OF INCOME
TAX REFORM WHICH RESULTED IN NET INCREASE IN REAL
DISPOSABLE INCOME OF ABOUT ONE PERCENT. INDUSTRIAL
PRODUCTION ROSE SEVEN PERCENT. CONTRACTION IN CON-
STRUCTION SECTOR WAS INDICATED BY 26 PERCENT REDUCTION
IN BUILDING STARTS. REAL INVESTMENT DECLINED BY TEN
PERCENT.

3. RABINOWITZ STATED THAT TOTAL IMPORTS IN 1975 AMOUNTED TO \$7.9 BILLION, A SEVEN PERCENT INCREASE DUE ENTIRELY TO PRICE INCREASES, I.E., NO INCREASE IN REAL TERMS.
EXPORTS TOTALED \$4 BILLION, UP THREE PERCENT IN REAL TERMS. INDUSTRIAL EXPORTS, EXCLUDING DIAMONDS, DECLINED TWO PERCENT WHILE AGRICULTURAL EXPORTS INCREASED 26 PERCENT IN REAL TERMS. CURRENT ACCOUNT DEFICIT REACHED \$3.9 BILLION COMPARED TO \$3.6 BILLION IN 1974. GROSS CAPITAL IMPORTS EQUALED \$4 BILLION OF WHICH \$1.6 BILLION WAS UNILATERAL TRANSFERS.

4. THE GOI'S ECONOMIC GOALS FOR 1976, AS OUTLINED BY RABINOWITZ ARE BASICALLY A CONTINUATION OF THOSE OF LAST YEAR, I.E. HOLDING DOWN GROWTH, CONSUMPTION, AND IMPORTS IN ORDER TO INCREASE EXPORTS. SPECIFICALLY, OUTLOOK IS FOR A ONE PERCENT INCREASE IN GNP, TWO PERCENT DECLINE IN BOTH PRIVATE AND PUBLIC CIVILIAN CONSUMPTION AND A NINE PERCENT REAL INCREASE IN EXPORTS, INCLUDING 15 PERCENT RISE IN INDUSTRIAL EXPORTS. IMPORTS WILL INCREASE ONE-HALF OF ONE PERCENT IN REAL TERMS. BALANCE OF PAYMENTS GOAL IS A REDUCTION IN CURRENT ACCOUNT DEFICIT OF \$200 MILLION TO \$3.7
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PAGE 03 TEL AV 01463 271516Z

BILLION. NET CAPITAL IMPORTS ARE ESTIMATED AT \$3.6 BILLION, ASSUMING \$2.3 BILLION IN USG ASSISTANCE.
FOREIGN DEBT WILL TOTAL \$9 BILLION IN MARCH, 1977.
CONSUMER PRICE INDEX WILL RISE BY 25 PERCENT.

5. IN THE AREA OF EMPLOYMENT POLICY, RABINOWITZ SAID THERE WILL NOT BE ANY INCREASE IN WAGES EXCEEDING GAINS IN PRODUCTIVITY. GOI WILL ATTEMPT TO ELIMINATE OVER-EMPLOYMENT WHILE PREVENTING HIGH UNEMPLOYMENT BEYOND THAT NECESSITATED BY SHIFTING WORKERS TO

EXPORT INDUSTRY. RABINOWITZ NOTED THAT POPULATION INCREASE DUE TO IMMIGRATION WAS SMALL BECAUSE OF REDUCED IMMIGRATION AND GROWING "TRAFFIC OF ISRAELIS TRAVELLING ABROAD FOR LENGTHY PERIODS."

6. IN DISCUSSING NEED FOR BELT-TIGHTENING IN EVERY SPHERE AND NECESSITY TO FREEZE SOCIAL AND WELFARE EXPENDITURES, RABINOWITZ SAID "WE HAVE REACHED A STATE WHERE WELFARE AND NATIONAL INSURANCE ALLOWANCES-- WHICH, AS AFOREMENTIONED, HAVE GROWN AT A FASTER PACE THAN THE AVERAGE INCOME--INCREASINGLY REDUCE WORK INCENTIVE, WITH THE RESULTANT CONCERN LEST READINESS TO WORK BE IMPAIRED IF WE CONTINUE ON THIS COURSE."

7. DEFENSE EXPENDITURES CONSTITUTE APPROXIMATELY 39 PERCENT OF PROPOSED BUDGET, ABOUT SAME PROPORTION AS LAST TWO YEARS. DEBT SERVICE REPRESENTS 21 PERCENT CONTRASTED TO 18 PERCENT LAST TWO YEARS. THESE TWO ITEMS ACCOUNT FOR 60 PERCENT OF TOTAL BUDGET EXPENDITURES.

8. PROPOSED EXPENDITURE ON SUBSIDIES OF BASIC COMMODITIES SUCH AS MILK, BREAD, COOKING OIL, PUBLIC TRANSPORT, ETC. IS PROJECTED TO DECREASE FROM IL 2.7 TO IL 1.6 BILLION, A 50 PERCENT REDUCTION IN REAL TERMS ACCORDING TO RABINOWITZ. MOREOVER, THERE ARE SIGNIFICANT INCREASES IN OIL DRILLING AND EXPORT INCENTIVES BUDGETS.

9. TOTAL REVENUES ARE PROJECTED AT IL 82.5 BILLION WITH ALMOST IL 45 BILLION COMING FROM TAXES. FOREIGN CURRENCY INCOME IS NEXT LARGEST COMPONENT, BUT DETAILED BREAKDOWN NOT YET AVAILABLE. PROJECTED DEFICIT IS LIMITED OFFICIAL USE
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PAGE 04 TEL AV 01463 271516Z

IL 2.7 BILLION.

10. PRESS REACTION TO BUDGET IS ONE OF INCREDOULITY. MAARIV WRITES "NO ONE BELIEVES ANY MORE THAT THIS IS REALLY A FINAL CONCLUSIVE BUDGET. SUBMITTING BUDGETS HAS BECOME A FORMAL ACT, NO LONGER CLOSELY RELATED TO THE REAL BEHAVIOR OF ANY MINISTRY IN FINANCIAL SPHERE." HAARETZ CHARACTERIZED IT AS "A BUDGET OF WISHFUL THINKING." YEDIOT AHARONOT SAYS "NO ONE BELIEVES THAT THIS BUDGET WILL ACHIEVE ITS AIM." DAVAR CALLS THE BUDGET OPTIMISTIC AND POINTS OUT THAT IT IS HARD ON TAXPAYERS AND WILL MAKE ITSELF FELT IN BUDGETS OF THOSE WHO ARE NOT WEALTHY. IT CALLS BUDGET'S BALANCE OF APYMENTS OBJECTIVES TOO LITTLE AND TOO SLOW.

1. EMBASSY COMMENT: BUDGET RAISES MANY QUESTIONS. DEFICIT OF IL 2.7 BILLION IS ESPECIALLY PROBLEMATIC

IN LIGHT OF THIS YEAR'S EXPERIENCE WHEN BUDGET PROJECTED DEFICIT AT IL 1.5 BILLION AND ACTUAL DEFICIT IS IL 5.8 BILLION. OFFICIAL ESTIMATE THAT NEXT YEAR'S DEFICIT WILL BE LESS THAN ONE-HALF THIS YEAR'S IS HARDLY CREDIBLE. GOI OFFICIAL TOLD EMBOFF THAT TARGET OF IL 8.3 BILLION FROM SALE OF BONDS LOCALLY IS ESPECIALLY OPTIMISTIC GIVEN RECENT MEASURES TO TAX THEM AND ELIMINATE BEARER-BOND CATEGORY. DELAY IN THE IMPLEMENTATION OF VALUE ADDED TAX (VAT) CASTS FURTHER DOUBTS ON REVENUE ESTIMATES.

12. GOI PROJECTION OF 25 PERCENT INCREASE IN CPI SEEMS OPTIMISTIC. ECONOMISTS AT BANK OF ISRAEL BELIEVE THAT 40 PERCENT IS MORE REALISTIC. ALTHOUGH GOI POINTS OUT THAT PROPOSED BUDGET INCLUDES RESERVES TO COVER ANTICIPATED INFLATIONARY INCREASES, THERE IS REASON TO BELIEVE THAT AS DEFICIT INCREASES, INFLATION WILL SOAR.

13. PROJECTED REDUCTION IN SUBSIDIES REPRESENTS A STEP IN DIRECTION OF ELIMINATION OF SUBSIDIES, GOAL ESPoused BY MANY GOI OFFICIALS. HOWEVER, HISTADRUT HAS INDICATED ITS OPPOSITION TO COMPLETE ELIMINATION AND LIMITED OFFICIAL USE
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PAGE 05 TEL AV 01463 271516Z

MINISTER OF AGRICULTURE FAVORS PHASED REDUCTION. HEAD OF FINANCE MINISTRY'S BUDGET DEPT. TOLD EMBOFF THAT BECAUSE GOVERNMENT IS LARGEST CONSUMER, REAL BUDGETARY SAVINGS IN SUBSIDY REDUCTION IS ONLY 35-40 PERCENT. THUS, SOME SLIPPAGE ON PROPOSED SUBSIDY REDUCTION SEEKS LIKELY.

14. DETAILS OF BUDGET AND FURTHER ANALYSIS WILL BE REPORTED BY AIRGRAM.
TOON

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Message Attributes

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